

# Understanding THE SOCIAL STATE

Its growth is a puzzle for modern economics  
but has deep evolutionary roots

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**T**he scope and size of government in economic life are at the center of the public policy debate. The most striking evolution has been the enormous growth of government in advanced economies over the 20th century: the size of the government, measured by the proportion of tax revenue to national income, had increased from less than 10 percent at the beginning of the 20th century to levels between 30 percent and 50 percent by 1980. In France, Sweden, the United Kingdom, and the United States, the

tax ratio was below 10 percent until World War I, increased until about the late 1970s, and remained largely stable thereafter (Chart 1). The timing and the final levels differ across countries, with France and Sweden stabilizing around 50 percent, the United States around 30 percent, and the United Kingdom around 40 percent.

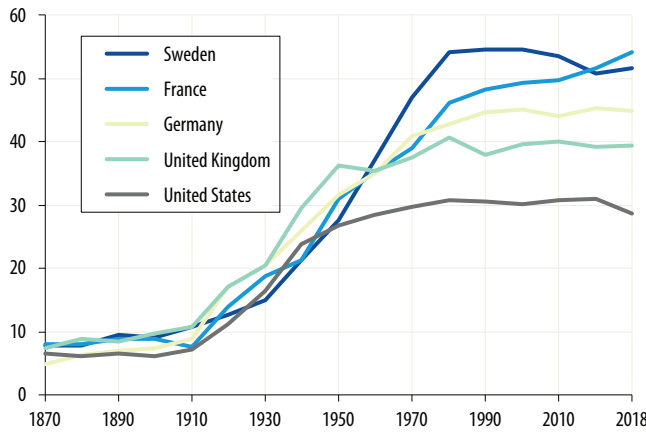
What are governments doing with so much tax revenue that they did not do before? Until the early 20th century, the bulk of government spending in Europe was devoted to so-called regalian public



Chart 1

### Bulking up

The ratio of tax revenue to GDP rose steadily from the end of World War I until the late 1970s before leveling off.  
(tax revenue/national income, percent)



**Source:** Piketty (2020), Figure 10.14. The last point is updated to 2018.  
**Note:** Taxes at all levels of government are included.

goods such as law and order, national defense, administration, and basic infrastructure. In contrast, the growth of government over the 20th century in advanced economies was almost entirely due to growth in the social state, which provides education and childcare support for the young, health care for the sick, and retirement benefits for the old, as well as an array of income support programs for the disabled, the unemployed, and the poor (Chart 2). Essentially, the social state provides support for those who cannot provide for themselves.

### A social species

The social state raises a puzzle for the standard economic model based on rational and self-interested individuals who interact through markets. In such a model, rational individuals in a market economy with functioning credit markets should be able to manage largely on their own. The young (or their parents) can borrow to pay for their education if this is a worthy investment. Health care is largely a private good for which people can buy insurance. Workers can save for retirement, anticipating that their work ability will decline with age. Finally, people can dip into their savings whenever they face a temporary income loss such as unemployment.

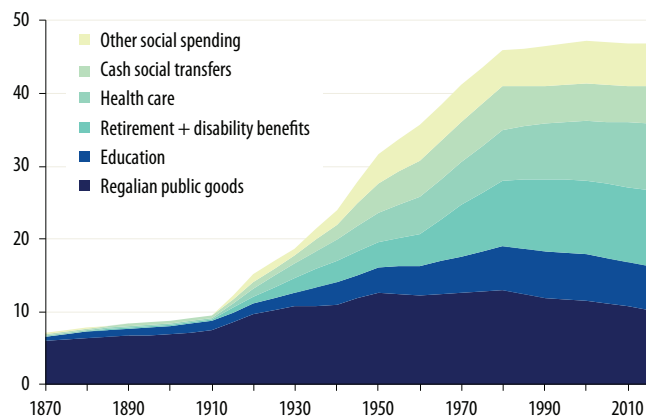
This economic dream has never been a reality for anyone except the wealthy elite, who could afford to pay for private teachers to educate their children and private doctors for their health care, and who could use their fortune to cover their needs in old age. The vast majority of the population could not afford quality education or health care and had to keep working in old age or rely on their children for support. Therefore, the modern social state extends to the full population quality education, health, and retirement support that previously only the elite could afford. Broadly speaking, it is as if people in modern societies had chosen to socialize childcare and education of the young, health care for the sick, and economic support for the old and other groups unable to work, such as the disabled and the unemployed. Why is it so, and where does such socialization come from?

Notwithstanding the standard economic model, it is obvious that humans are social beings. We act together within groups such as families, workplaces, communities, and nations, and we care

Chart 2

### From guns to butter

(composition of government spending by decade: average for France, Germany, Sweden, and the United Kingdom as a percent of national income)



**Source:** Piketty (2020), Figure 10.15.  
**Note:** Regalian public goods include defense, law and order, administration, and infrastructure. Cash social transfers include unemployment benefits, family benefits, and means-tested benefits. Other social spending includes in-kind spending, such as for public housing.

## The evidence shows that success requires a social solution through the social state.

about inequality. Such social interactions have deep evolutionary roots and are not mediated through markets. Humans evolved as a social species with extraordinary ability to work and cooperate in groups and correspondingly great sensitivity to how the fruits of joint work are distributed. At a high level, if modern social states take care of the young, the sick, and the elderly, it is because early hunter-gatherer human societies already took care of them through community support.

### Reducing poverty

Does the modern social state work? Historically, mass education has always been state-driven and was actually the first pillar of the social state to develop, as early as the 19th century in Prussia and the United States. And virtually everybody agrees that an educated workforce is a requisite for long-term economic development. Mass education is achieved through a combination of compulsory schooling and government funding. Government funding is needed because low- and moderate-income families are unable to afford the high cost of a quality education. This in turn provides opportunities for economic success to children from disadvantaged backgrounds. The experience of unbearable student loans and predatory for-profit schools in the United States shows that markets and the profit motive work much worse.

Modern health care is even more expensive than education in advanced economies. Absent government funding, only the well-off would be able to afford health care. This is why universal health insurance largely funded by government has so far been the only successful way to provide quality care to all, a goal that is enormously popular and has contributed to continuously rising longevity in richer countries.

A large body of work shows that individuals are not good at saving on their own for retirement or even at accumulating a modest nest egg to weather a temporary loss of income. The social state organizes

such saving through taxes and corresponding retirement or unemployment benefits. This social solution undoubtedly reduces enormously poverty in old age or during unemployment, and it also receives broad popular support.

### Backward logic

What does this mean for economic policy advice? Economics assumes that humans are good at solving the problems of education, retirement, and health insurance as *individuals*, but the evidence shows that success requires a *social solution* through the social state. Standard economics gets its logic backward: it worries about the growth effects of large social states, whereas their rise in the middle of the 20th century came with extraordinary and equitable growth in Western countries (Piketty 2020). It worries about the social state reducing individual incentives to work, whereas societies voluntarily decided to reduce work for the young and the old through mass education and retirement benefits and for the overworked through labor regulations.

Fast-developing economies today, such as China and India, have also experienced growth in the size of their governments relative to GDP, but it has not been nearly as large as in advanced economies (Chancel and others 2022). If the points made here are correct, this implies that large segments of the populations in these countries will remain excluded from high-quality education, health care, and old-age support, hampering broad-based economic growth and widely shared economic well-being. [FD](#)

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